

Buying a Home

My name is Ed Mittelstet with the Department of Veterans Affairs Loan Guaranty Service. Today I am going to give you some helpful tips on buying a home.

Buying a home is one of the most important and largest financial transactions most individuals will make in their life time. The purpose of today's program is to prepare you the veteran to make an intelligent and informed decision when you purchase and finance a home for you and your family.

I am going to cover the four primary steps in the home buying process.

PP#1 Steps to Buying and Financing a Home

- Selection of a Real Estate Professional
- Deciding what area you want to live
- Selecting you VA lender
- Selecting your "dream home"

The first step is to select a Real Estate professional who will help you find the perfect home that fits your individual needs and budget. The Real Estate professional that you choose should be familiar with the area where you want to live. It is important that you feel comfortable with your agent and you are able to communicate what type of house you want to purchase. For example, do you want a one story home versus a two story, how many bedrooms do you need, how many bathrooms are required, size of garage, and most important what price range house can you afford. A Real Estate professional that understands your individual needs can make the home buying process as painless as possible.

The second step is making the decision on where you want to live. By this I mean, what part of town do you want your future home to be located? Have you considered schools in the area, the commute time to you or your spouse's work site? You may decide that you want to purchase an acreage in a rural area, that's fine, but you should convey your desires to your agent. The better informed you agent is of your needs, the better job your agent can doing in locating the house that meets your particular requirements.

The third step in the process is selecting the VA lender who will finance your home purchase. Most all lenders in the market place make VA home loans. Your Real Estate professional may have a recommendation, you can check the telephone yellow pages, go on line on the internet, or check with the financial institution where you currently have your checking and savings accounts. I recommend selecting your lender prior to beginning to hunt for a house; that way you can get a pre-approval from your lender and will know what loan amount that you are approved for and the price range of the house that you can afford. A little later in the program, I will go over some important considerations you should make when selecting your VA lender.

The final step in the process is to actually select the “dream home” that fits your family needs and budget. I can not emphasize enough the importance of purchasing a home that you can afford. The worst nightmare of being a new homeowner is to discover that the new house payment exceeds what you can comfortably pay and still provide the basic necessities to support you and your family.

I talked earlier about selecting a VA lender to finance your home purchase. Keep in mind that the interest rate on your loan and closing costs charged to obtain the loan can vary from lender to lender. Both the interest rate and the amount of closing costs you pay are negotiable between you and your lender. I would recommend that you check with at least three different lenders to comparison shop these two important items. Obtaining the best interest rate and lowest closing costs in the current marketplace, can save you money needed to close the loan, plus, save you thousands of dollars in interest over the life of the loan.

PP#2 Typical Closing Costs

- origination fee
- credit report
- appraisal
- title costs
- recording costs
- homeowners insurance
- escrow deposits for insurance and taxes
- VA Funding Fee

Let us now talk about some of the various closing costs that you might expect to pay in obtaining your VA home loan. Most lenders will charge an origination fee. This is usually quoted by the lender as a point or percentage of the loan amount. On VA loans the lender is limited to charging you only a one percent origination fee. As an example, on a \$100,000 loan, a 1% origination fee would be \$1,000.

All VA home loans require a credit report on the borrowers to determine how they have paid their obligations in the past. Having a good credit history is very important in obtaining a VA home loan. Good credit is a prime indicator to the lender that you will make your house payments on time and could influence whether you get the best interest rate available. An appraisal on the property you are purchasing is required on all VA [purchase](#) loans. The property appraisal of value is important since it protects not only the lender by assuring they have sufficient collateral for the loan, but you the veteran purchaser by validating that the property is worth your agreed purchase price.

Another typical closing cost is for title costs. These costs could be for abstract work, attorney's opinions, and for title insurance. The purpose of these items are to insure that when you purchase the property that you will have a clear and marketable title after the closing of the sale. There are also costs for recording the necessary documents at the county court house to make the property transfer legal and a matter of public record.

VA and your lender will require that you purchase a homeowner's insurance policy so your home will be insured against loss from storm damage, fire, hail and other natural perils. The homeowners insurance policy protects you the veteran, and will pay to repair/replace damages to your home, less what ever deductible that you choose on your insurance policy. Just keep in mind that the lower the deductible that you choose, the higher the annual premium.

Your lender will also collect at closing two months escrow impounds for taxes and insurance. You will also pay 1/12 of the amount of your annual homeowner's insurance premium and 1/12 of your annual property taxes in your monthly house payment. Your lender will then pay your taxes and insurance each year when they become due and payable. The reason for the two months escrow impounds collected at closing is to insure that you have sufficient monies in your escrow account to pay these items when they become due.

At closing you will also be charged a VA Funding Fee. This fee is collected by the lender and goes to VA to defray the costs of the VA guaranteed home loan program. One of the advantages of the VA home loan is that the funding fee can be financed into the loan. [If you are a disabled veteran, receiving service connected VA compensation, you are exempt from paying the funding fee.](#)

I want to now go over some other items that may not be required, but you should consider when you buy a home.

PP#3 Additional Safeguards

- property survey
- homebuyer's inspection
- homebuyer's protection warranty

Additional safeguards you may want to consider is a property survey, it may be required by the title company, but not always. The value in a property survey is that you have an indicator of where the property lines are located and the location of any easements that affects your property.

I highly recommend that you hire an independent homebuyer inspection service to make an inspection of the property prior to closing the sale. The appraisal that I mention earlier only determines the value of the property. Typical home inspectors due a thorough inspection of the house which includes all mechanical systems such as heating and cooling. They usually check plumbing, electrical, roof, hot water heater, and appliances to determine if they are in proper working order. While the appraisal is primarily concerned with value, the home inspection is concerned with the condition of the house and its various operating systems. The cost of the home inspection is usually money well spent.

While a home inspection determines that everything is working at that time, there are no guarantees that something won't break six months down the road. That is why a homebuyer's warranty may be a good idea to purchase. The warranties are generally for a one year period and cover most items such as AC, furnace, water heater, appliances, etc. Most carry a deductible of \$35-\$50 dollars which the homeowner pays and then the insurance covers the balance of the cost of the repairs. It is very common that the seller's provide and pay for this warranty as a marketing tool. But, who pays for this warranty is negotiable item between you and your seller.

Now that you have purchased a home, keep in mind that you have a valuable asset that can increase in value over time, if properly maintained. By promptly doing minor repairs, keeping the house painted, landscaping and yard in good condition, you will have a home that will last for many years, maintain or increase its value, and be marketable if you desire to sell in the future.

You have earned your VA home loan benefit by serving your country, so when you decide to purchase a home for you and your family, finance it with a VA home loan.